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Online Customer Retention: The Resistance to Change Perspective

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Abstract

Many academics and practitioners have reiterated the importance of online customer retention in order to ensure long-term profitability. For this reason, a number of studies have identified various means and ends of developing customer retention with a greater emphasis on creating customer loyalty. However, retaining customers, especially in Internet, is very difficult because of the low search cost and low switching cost. This study offers a new conceptual framework for retaining online customers based on theoretical foundations from status quo bias theory. Particularly, this study considers online customer retention from the perspective of customer resistance to change. The empirical study of an Internet bookstore, conducted through an online survey reveals that trust, relative attractiveness and switching costs together influence customer resistance to change. This study mainly contributes by identifying another approach for retaining online customers, i.e. by creating resistance to change.

Keywords: Customer retention, status quo bias, resistance to change, willingness to pay more.

Introduction

A number of academics (e.g., Dowling and Uncles 1997; Reichheld and Schefter 2000) and practitioners have reiterated the importance of retaining customers. Reichheld and Schefter (2000) found that increasing customer retention rates by 5% increases the profits by 25% to 95% as the cost of acquiring a customer is 5 times as high as the cost of retaining customer (Reichheld and Sasser 1990). Loyal customers build businesses by buying more, paying premium prices, and providing positive word of mouth (Ganesh et al. 2000). The importance of retaining customers increases particularly in e-commerce because of low switching costs and comparison costs (Chen and Hitt 2002).

Customer retention can be achieved either by improving on website's positives that would draw customer loyalty or by implementing lock-in strategies (Bendapudi and Berry 1997) that would force a customer to stay on. Many online vendors have implemented various loyalty strategies (such as value added services) to retain customers. However, research (e.g., Dowling and Uncles 1997) reveals that the degree of customer loyalty online is very low. Only about 10 percent of buyers are 100 percent loyal to a particular brand (Dowling and Uncles 1997). In online grocery, for instance, 75% of customers are relationship-averse bargain hunters (Reichheld and Schefter 2000). It has been observed that over 50% customers stop visiting a website completely before their third anniversary of using the website (Reichheld and Schefter 2000). Therefore, it is necessary that online vendors look for strategies to lock-in customers. Although, it is difficult to lock-in customers online, it can be achieved if vendors can tap on individual's characteristics that incline them towards resisting changes.

Oreg (2003) describes individual's dispositional inclination to resist changes as resistance to change. Clearly, if a vendor can identify factors which increase customer resistance to change, then it can plan strategies to increase this resistance to change and thus retain customers. Resistance to change may also be easier to achieve than customer loyalty. Loyalty is difficult to achieve as it is difficult for customers to experience differential emotional experience in online shopping. Resistance to change, on the other hand, can be increased by tapping into innate human characteristics that shows an individual's inclination to resist changes.

Resistance to change has been studied as a construct from various perspectives. In Sociology, it is defined as tendencies of individuals, groups, organizations and entire societies to act as to ward-off change (Klein 1985). In Psychology, it is defined as an individual's tendency to resist or avoid making change, to devalue changes generally, and to find changes aversive across diverse contexts and types of change (Oreg 2003). Kyle et al. (2004) define it as the dependence on a choice such that a person's tendencies to select other alternatives are inhibited by the preferences for the current choice. In management studies, resistance to change has often been conceptualized as any conduct that seeks to keep the status quo or the persistence to avoid change (e.g., Val and Fuentes 2003).

However, there has been very limited IS research on resistance to change. In IS research, resistance to change is conceptualized as an adverse reaction of users to proposed change in IS (Hirschheim and Newman 1988) or as resistant behaviors (Marakas and Hornik 1996). Previous research has explored the causes of resistance to change (Hirschheim and Newman 1988; Val and Fuentes 2003) or conceptually discussed resistance to change without empirical testing (Gibson 2003; Marakas and Hornik 1996). Moreover, few theoretical foundations exist in the literature that explain user resistance in an IS implementation context (Marakas and Hornik 1996). This research therefore, adds to the literature by studying customer resistance to change in an online purchase situation. Moreover, studying online customer retention from the perspective of resistance to change would offer new insights into online consumer behavior and strategies for implementing customer lock-in online.

The aim of this study is therefore, to examine online customer retention from the perspective of resistance to change. Specifically, we seek to answer the following questions. What are the factors that influence customer resistance to change? And what are the consequences of customer resistance to change? This primary contribution of this study is to propose and empirically study online customer retention from resistance to change perspective. It also gives insight into the means and ends of developing online customer retention. Moreover, this study offers practical insights to Internet vendors on retaining customers so that they can achieve long-term profitability.

Theoretical and Conceptual Background

Resistance to Change

Most studies find close relationship between resistance to change (Pritchard et al. 1999) and some of them confuse it with inertia, and commitment and loyalty. Therefore, it is essential at this stage to distinguish resistance to change from inertia, commitment and loyalty. Past research reveals two dimensions of resistance to change: cognitive (Armenakis et. al. 1993) and affective (Vince and Broussine 1996). For cognitive dimension, Armenakis et. al. (1993) suggested that resistance to change represent a cognitive state called 'unreadiness'. For affective dimension, Vince and Broussine (1996) found that people's response during the period of change is largely emotional. Inertia on the other hand has been regarded as a non-conscious process where consumers simply buy the same brand out of *habit* (Huang and Yu 1999). The difference between resistance to change and inertia is the factor in buying decision. In inertia, habit is the main factor; whereas in resistance to change, other factors such as switching costs, also play important roles in determining customer's decision to stay with a vendor (Sirdeshmukh et. al. 2002). Table 1 summarizes the differences between resistance to change, inertia, commitment and loyalty

Table 1: Comparison of Various Resistance-to-Change Related Constructs

Dimension	Process	Components	Buying decision factor
Resistance to change	Conscious	Primarily Cognitive, although affective components play a role	Negative components play major role than positive components
Inertia	Non-conscious	None; Behavior is habitual	Habit plays an important role
Commitment	Conscious	Primarily affective, although cognitive components play a role	Both positive and negative components play a role
Loyalty	Conscious	Primarily affective, although cognitive components play a role	Although negative components are important, positive components play primary role.
Reference	Huang and Yu (1999); Armenakis et al. (1993); Vince and Broussine (1996)	Sirdeshmukh et al. (2002); Bansal et al. (2004)	Prtichard et al. (1999); Choi et al. (2006)

Resistance to change can also be differentiated from commitment depending upon the motivation of customer motivation for maintaining relationship (Table 1). While resistance to change comprises affective and cognitive components (represents both dedication-based and constraint-based relationship maintenance), commitment comprises mostly affective component (represents mainly dedication-based relationship maintenance) (Bansal et al. 2004). Resistance to change is also different from loyalty. It is known that resistance to change leads to loyalty (Pritchard et. al. 1999). While loyal customers would naturally have a resistance to change, it is possible that customers would be resistant to change without being loyal (Choi et al. 2006). For the purpose of this study, we take multidimensional approach (both affective and cognitive dimensions) and adopting Oreg (2003), we define resistance to change *as customer's tendency to resist or avoid switching from current vendor to another vendor.* Why do people resist changes? Status quo bias theory sheds some insight into this phenomenon.

Status-Quo Bias Theory

As discussed earlier, in management studies, resistance to change has often been conceptualized as any conduct that seeks to keep the status quo (persistence to avoid change) (e.g., Val and Fuentes 2003). According to Oreg (2003) when customers have a bias to stick with the status quo or their current vendor, they tend to resist switching from the current vendor to another vendor for transactions. Previous research has shown that individuals disproportionately stick to the status quo (Kahneman et. al. 1991) decision and this bias for the status quo is termed *status quo bias*.

Various theoretical perspectives provide support to such status quo in decision making. Aarts (1996), for example, gives detailed theorization on habits to characterize habitual behavior among customers. Howard and Sheth (1969), in their theory of buyer behavior refer to a sort of status quo after a significant number of purchases made by the customer with the same vendor. Information processing theory of customer choice (Bettman 1979) also alludes to habitual behavior after a significant number of purchases have been made by the customer. However, all these theories characterize status quo in terms of non-conscious process (a sort of inertia) that happens after a customer has become habitual with making purchases with the vendor.

As discussed earlier, resistance to change is a conscious process. Therefore, we need a theory that characterizes customer behavior depending upon cognitive and affective mental process. One such theory is status quo bias theory. *Status quo bias* theory delves deeper into the causes of customers' inclination to resist changes and hence has been used in this research. According to this theory, most real decisions have a status quo alternative - that is, doing nothing or maintaining one's current or previous decision (Samuelson and Zeckhauser 1988). Samuelson and Zeckhauser (1988) identify three main causes of status quo bias, namely, rational decision making, cognitive misperceptions, and psychological commitment (Table 2).

Table 2: Status Quo Bias Factors

Category	Causes of Status Quo Bias	Corresponding Factors
Rational decision making	Comparison with alternatives	**Relative Attractiveness**
	Transition costs	**Switching costs**
Cognitive misperceptions	Loss aversion	**Trust**
Psychological commitment	Sunk costs and resource investments	**Switching costs**
	Regret avoidance	**Trust**
	Control	**Trust**

Rational decision making requires customers to make the best choice out of a set of alternatives whereby customers tend to maximize the value of their decision. Customers stick with their decision if it gives more benefits as compared to other alternatives. When the decision is not as attractive, but there are significant transitions costs involved, customers stick with the current alternative. Moreover, uncertainty and risk involved in switching prevents customers to switch from the current alternative particularly when the utility from the current vendor is sufficiently high. Since there are significant uncertainty and risk in electronic commerce (Grewal et al. 2003) customers would tend to stick to the vendor in whom he has developed some trust (Gefen 2000). Finally, if the cost of decision analysis is high, it may be optimal for individuals to perform an analysis once, at their initial point of decision, and defer to the status quo choice in subsequent decisions.

Cognitive misperceptions, such as aversion to loss also contribute to status quo bias. Loss aversion refers to the situation where the disutility of giving up an object is greater than the utility associated with acquiring it (Kahneman and Tversky 1991). In other words, individuals have strong preference for avoiding losses than acquiring gains. According to loss aversion, the significant carriers of utility are not states of wealth, but changes relative to a neutral reference point (Kahneman et. al. 1991). Therefore, what customers actually resist is the change from the reference point, i.e. satisfactory status quo with the current vendor, instead of the real monetary cost associated with switching.

Individuals' *psychological commitment* to a decision, which involves sunk costs as well as resource investment, would also influence their status quo decision. Continuance of status quo choices may be motivated by a desire to justify previous commitments by making subsequent commitments. Thus sunk costs act as the switching costs which lead to status quo bias. Moreover, individuals wish to avoid regret for anticipated poor consequences of their alternate decisions, thus giving preference to status quo decision. Lastly, making a decision enforces the individual's perception that he or she controls the situation. The bias stemming from the illusion of control is a significant potential source of status quo inertia.

Conceptual Framework

Status quo bias theory thus provides a number of causes of status quo or in other words of resistance to change. Broadly, we can categorize these causes as due to customer's desire to stay (such as positive value and trust) (a.k.a. dedication-based relationship) and due to constraints in switching (transition costs, uncertainty and risk etc.) (a.k.a. constraint-based relationship) (Bendapudi and Berry 1997). Hence, vendors can retain customers by striving to develop dedication-based relationship or constraint-based relationship. These two are the means of retaining online customers. Dedication-based relationship development and constraint-based relationship development may influence affective and cognitive components of resistance to change respectively. Dedication-based relationship development may lead to resistance to change because the customers have a positive feeling toward the vendor which they approve of and actively support. They stay with the vendor because they genuinely desire to do so. On the other hand, constraint-based relationship development may lead to resistance to change because they are locked in by the vendor, or the result of cost-benefit evaluation does not justify them to leave the current vendor.

Dedication-based relationship development

Individuals in *dedication-based based relationship* desire continuance (Bendapudi and Berry 1997). Dedication-based relationship development emphasizes the development of a relationship because the individual actively desires it. The literature in marketing suggests that customer's trust increases dedication (Bansal et. al. 2004). Thus, trust can be considered as a means of develop dedication-based relationship. The early psychology and sociology studies define trust as a set of beliefs that other people would fulfill their expectations (Blau 1964). Trust is the confidence a person has in his or her favorable expectations of what other people will do based on previous interaction. We define trust as the *individual belief that a party's promise is reliable and that the party fulfills its obligations in an exchange relationship* (Schurr and Ozanne 1985).

Constraint-based relationship development

Constraint-based relationship development occurs when a party to the relationship believes that it cannot exit the relationship due to economic, social, or psychological costs involved (Bendapudi and Berry 1997). Constraint-based relationship development emphasizes the development of a relationship because the individual has no better option. In economics (Williamson 1975), the relationship development is explained in terms of costs and benefits of staying versus leaving the relationship. This literature emphasizes dependence, switching costs, and alternatives attractiveness. In marketing, switching cost is also mentioned as a way for constraint-based relationship development (Bansal et. al. 2004). Therefore, switching costs and relative attractiveness can be considered as a way to develop constraint-based relationship.

Usually consumers are assumed to have well-defined preferences for alternatives offered to them, such that the consumers select the alternative that offers them the highest utility (Kahneman and Tversky 1991), or in other words, is relatively more attractive. Although relative attractiveness has not been studied in depth as a construct, its role in customer decision making has been mentioned in several marketing literature (e.g. Alba et. al. 1997). A number of studies (e.g., Jones et al. 2000) have focused on alternative attractiveness instead of relative attractiveness. Alternative attractiveness is defined as customer perceptions regarding the extent to which viable alternatives are available in the market (Jones et. al. 2000). While relative attractiveness takes the current vendor as the reference point, alternative attractiveness takes other vendors as the reference point. The problem about alternative attractiveness is that customers often lack information about alternatives – a situation called knowledge uncertainty (Urbany et. al. 1989). Customers with greater knowledge uncertainty are more likely to engage a heuristic choice that overrides any consideration of alternative evaluation (Urbany et. al. 1989). Hence, relative attractiveness of the current choice often dominates the customer buying decision, especially when customers do not have a clear idea about alternatives. Therefore we will use relative attractiveness instead of alternative attractiveness in this study. We define relative attractiveness as the *customer perceptions of the attractiveness of shopping with the current online vendor relative to other online vendors*.

Switching costs is the perceived disutility a customer would experience from switching service providers (Chen and Hitt 2002). Switching costs are high when there are significant transitions costs involved or there are sunk costs or resource investment. For example, some online vendors provide points which increase with customer purchases. When a customer accumulates a large no. of such points, the switching costs increase as these points benefit the

customer with discounts and other benefits. Similarly, sunk costs, such as membership fee, would increase switching costs. For the purpose of this study, we define switching costs as *customer's subjective perception of one-time costs that customers associate with the process of switching from one vendor to another* (Burnham et. al. 2003).

Ends of Customer Retention

As a result of relationship development, customers would resist switching from the vendor, as represented by resistance to change. From vendors' viewpoint, increasing resistance to change is beneficial only when it results in some tangible benefit, such as customers' willingness to pay more. Willingness to pay more is the willingness on the part of the customer to continue purchasing from the e-retailer despite an increase in price (Srinivasan et. al. 2002) or despite better price offerings from other vendors (Ganesh, et. al. 2000; Fullerton 2003). We define *willingness to pay more as the extent to which customers are willing to pay a higher price at the current vendor compared to other vendors*.

Research Model and Hypothesis

Based on the theoretical and conceptual background, we propose the following framework as shown in Figure 1. The three factors identified (trust, relative attractiveness, and familiarity) represent the antecedents of resistance to change. Our emphasis on this research is not on individual hypothesis, but on combined effect of the three antecedents, namely, trust, switching costs and relative attractiveness on resistance to change. We also propose direct relationships between trust, relative attractiveness, and switching costs and willingness to pay more. Also, the hypothesis of trust, switching costs and relative attractiveness with resistance to change hasn't gained much attention in previous studies and therefore, this study would serve as a platform for validating and adding new insights to these hypotheses.

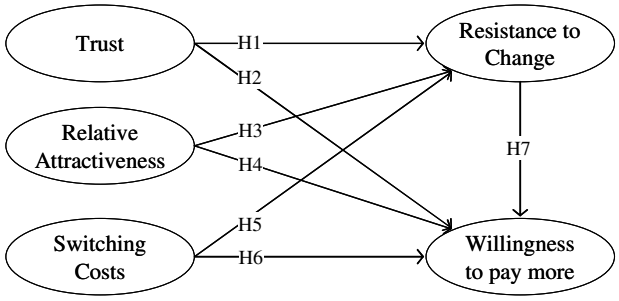


Figure 1: Research Model of Online Customer Retention

According to *status quo bias theory*, customer *psychological commitment* makes them feel stronger regret for poor outcomes of new actions rather than poor outcomes resulting from inaction. Therefore, to prevent later regret, customers choose to stay with the current vendor. This illusion of being under control of current situation increases when customer trusts the current vendor (Koller 1988). Trust gives the customers a sense of control as their beliefs in the vendor allow them to do what they would not do otherwise making them reluctant to lose the control by switching to an unknown vendor. Thus, trust increases resistance to change because of regret avoidance and loss of control resulting from switching. Previous research also shows that the more the customers trust the online vendor, the more they are likely to shop with the same vendor (Gefen 2000). Morgan and Hunt (1994) also found that trust leads to dedication-based relationship maintenance. Hence, we hypothesize that:

H1: Trust is positively related to Resistance to change.

Trust is an important factor in many buyer-seller transactions because it alleviates risks and uncertainty in the online environment. As customers always desire safe and reliable online transactions, they would be wiling to compensate trustworthy sellers with price premiums (Ba and Pavlou 2002). Indeed, a major reason for the existence of price

premiums is the need to compensate the seller for reducing transaction risks (Rao and Monroe 1996). Therefore customers are willing to pay more in order to compensate the vendor for promoting trust by reducing online transaction risks.

Moreover, a trustworthy customer is less inclined to search for alternatives and thus has to spend less time in shopping with the current vendor. Consequently, the associated search costs (time and effort costs) are reduced. The convenience of shopping thus obtained will discourage customers from searching for alternatives and their willingness to pay price premium for convenience (Carlson and Gieseke 1983). Thus when search cost is higher than price premium, especially when customers have to spend considerable time and effort in Internet to look for most trustworthy vendor, customers may be more willing to pay premium in order to lower the "full price" of the product.

Trust is also associated with willingness to pay more because of the reduction in the disappointment costs that might be incurred in the transaction with an unknown vendor. When disappointment cost is higher than price premium, especially due to the risk and uncertainty of online transactions, customers may be more willing to pay premium in order to lower the "full price" of the product.

Previous study found trust being a more salient factor than perceived price in customer's purchase intention (Kim and Xu 2004). Ba and Pavlou (2002) also found trust to be a catalyst for charging price premium. Thus the ability of trustworthy vendors to command price premium by assuring safe transaction, coupled with reduction in search and disappointment costs lead us to hypothesize:

H2: Trust is positively related to Willingness to pay more.

According to status quo bias theory *rational decision making* requires customers to make the best choice out of a set of alternatives and stick with their previous decision if it gives more benefits than other alternatives. Thus customers who perceive shopping with the current vendor more attractive than shopping with other vendors will be willing to maintain relationship with the current vendor. Even when customers do not have clear ideas about alternatives, they will engage a heuristic choice, which is to stick with the attractive vendor based on past purchase (Urbany et. al. 1989). Therefore rationality guides customer's decision to stay with the vendor which provides greater relative benefits.

In addition, dependence is known to be a critical foundation for the stability of relationships (Skinner et. al. 1992). According to Interdependence Theory (Kelley and Thibaut 1978), Party *A's* dependence on a partner is a function of whether *A* believes the outcomes from relationships are valuable in general, and in comparison to outcomes available from alternative relationship partners. Customers may be dependent on the vendor because the relational outcome, although not satisfying, is still better than alternatives (Anderson and Narus 1990). That is, if Internet shopping at the current vendor is still better than alternatives, it hinders them from switching. Thus relative attractiveness may create resistance to change through the formation of dependence to the vendor. Previous research (e.g., Giangreco and Peccei 2005) support the relationship between perceived benefits of change (relative attractiveness) and resistance to change. Hence, we hypothesize:

H3: Relative attractiveness is positively related to Resistance to change.

Customers desire to transact with the vendor which provides higher benefits and qualities as compared with other vendors. However the problem of information asymmetry online is a moral hazard, i.e. the possibility of supplier undersupplying quality to gain short-term profit. In order to ensure that the vendor will consistently provide relative benefits and will not cheat, customers pay premium to vendors (Klein and Leffler 1981). If the price premium is sufficiently high, the possibility of repeat sales makes sellers forego the short-term profits from cheating (Rao and Bergen 1992). Customers are also willing to pay price premium to ensure that relative benefits are actually provided. Price premium acts as a risk-sharing device to allay opportunism that might increase disappointment cost (Singh and Sirdeshmukh 2000). Thus customers who found that shopping at the current vendor is more attractive than at other vendors may be willing to pay more in order to compensate the relative benefits provided by the vendor and the opportunity cost of not cheating. Hence, we hypothesize:

H4: Relative attractiveness is positively related to Willingness to pay more.

Revisiting *rational decision making* of *status quo bias theory*, transition costs incur when a person switch from a status quo to an alternative. Transition costs correspond to the procedural switching costs in Internet shopping. Such costs may deter customers to switch if the cost of switching exceeds the benefits gained associated with superior alternative. Therefore switching costs may lead to resistance to change, because any transition from the vendor to another vendor may require additional monetary and non-monetary costs that customers tend to avoid.

Also, *psychological commitment* of *status quo bias theory* sunk costs and past resource investments, which correspond to the financial and relational switching costs, may also discourage customers to switch because they have spent considerable monetary and non-monetary resources in the past. Indeed, it has been found that the sunk cost effect is manifested in a greater tendency to continue an endeavor once an investment has been made (Arkes and Blumer 1985). Therefore switching costs as psychological commitment may lead to resistance to change so that the customers may leverage their past investments. Previous researches also found that switching costs prevent customers from switching vendors (e.g. Sirdeshmukh et. al. 2002; Burnham et. al. 2003). Hence, we hypothesize:

H5: Switching costs is positively related to Resistance to change.

Switching costs may involve cost and constraints of searching alternative vendors, such as time constraint, mobility constraint, and comparison constraint (Urbany et. al. 1996). These search costs translate to higher "full price" of the product (Ehrlich and Fisher 1982). Therefore, when search cost is higher than price premium, customers would be more likely to pay price premium in order to lower the "full price" of the product. Additional view of switching cost comes from information cost structure theory (Zauberman 2003). According to Zauberman (2003), there are two cost categories associated with acquiring and processing information, namely, setup costs and usage costs. Choosing between alternatives involves a tradeoff between the two types of costs - either higher search cost with lower usage cost, or lower search cost with higher usage cost in the future. Since customers tend to focus on short-term considerations and fail to anticipate the impact of future switching costs, they would be more likely to choose the one with lower search cost, i.e. stay at the current vendor. Later when they find that usage cost is higher (e.g. due to price increase), they are already locked-in by the vendor and they have no choice but paying price premium.

Besides search cost, switching costs may also involve disappointment cost or psychological discomfort, e.g. relationship loss costs (Burnham et. al. 2003). These costs carry greater weight in the customer's decision making particularly because of the uncertainty that abounds in the Internet (Ehrlich and Fisher 1982). We would expect that customers would be willing to reduce disappointment cost as much as possible in order to lower the implicit cost of the product. Thus if the price premium is less than the disappointment cost, customers would be willing to pay price premium so that they can reduce the "full price" of the product. Previous study support the relationship between proposed that vendor may be able to earn higher price if switching costs are sufficiently high (Lieberman and Montgomery 1988). Hence, we hypothesize:

H6: Switching costs is positively related to Willingness to pay more.

According to *loss aversion* perspective of *status quo bias theory*, people are averse to losing something they own than they are pleased to make a gain as the disadvantages of leaving it loom larger than the advantages (Kahneman and Tversky 1991). In Internet shopping context, customers may not easily give up the relationship they have with the current vendor for something they can gain by switching to a new vendor. The disadvantages of leaving the current vendor (e.g. time and effort to re-orientate at the new vendor, uncertainty and risk of shopping at the new vendor, loss of relationship at the current vendor) may loom larger than the advantage (e.g. monetary gain by switching to a cheaper vendor). Therefore, customers are more likely to stay with the current vendor and *pay price premium*, if the premium is lesser than the perceived loss. Therefore, customers who have resistance to change may be willing to pay more in order to keep relationship with the vendor because the disadvantages of not doing so are larger than the advantages.

In addition, relationship marketing literature mentions price premium as a compensation for the investment a vendor incurs in developing and maintaining relationship with the customers. Such investments may include the costs of prospecting, identifying customer needs, modifying offerings to meet these needs, and monitoring performance (Bendapudi and Berry 1997). Repeat customers are also more willing to pay price premium because they focus on the service provided by a long-associated vendor rather than just the economics of transaction (Smith and

Brynjolfsson 2001). Thus resistance to change may lead to willingness to pay more due to customer's loss aversion and a payoff for the vendor's investment in maintaining the relationship. Hence, we hypothesize:

H7: Resistance to change is positively related to Willingness to pay more.

Research Methodology

Data Collection

We chose an Internet bookstore because books belong to the category of low-touch products (Lynch et al. 2001) and vary less in quality compared to other products. The online bookstore chosen for this study receives 120,000 visits daily and sells about 15,000 books daily. It is not a well-known online bookstore like Amazon.com, but a relatively small vendor. Data was collected for four days through the bookstore's website, which has a banner on its front page to publicize the survey and from which customers can click to go the survey website. Each respondent was rewarded USD1 for each completed survey.

We received a total of 370 responses to the Internet survey. Out of these, 3 respondents did not have any previous transactions and were therefore dropped. 73% of the respondents were female. Majority of respondents are 20 to 39 years old (76%), and student, employed or housewife (82.9%). The respondents are mostly experienced with using the Internet with 95.6% of them having 4 or more years of experience. In terms of transactions, 43.8% of respondents have transacted more than 10 times with the bookstore. The descriptive statistics of Respondent's data is shown in Table 3.

Table 3: Descriptive Statistics of Respondent's Characteristics

Measure	**Mean**	**S.D.**	**Item**	**Frequency**	Percentage
Gender	-	-	Female	268	**73.0**
			Male	99	**27.0**
Age	30.1	18.0	< 20	52	**14.2**
			20 – 29	138	**37.6**
			30 – 39	141	**38.4**
			> 39	36	**9.8**
Profession	-	-	Employed	89	**24.3**
			Housewife	78	**21.3**
			Self-employed	13	**3.5**
			Student	137	**37.3**
			Others	50	**13.6**
Internet experience (years)	7.8	2.6	<1	1	**0.3**
			1 – 3	15	**4.1**
			4 – 6	101	**27.5**
			7 – 9	147	**40.1**
			> 9	103	**28.1**
Transaction experience with bookstore (no. of times)	11.4	10.3	1 – 10	206	**56.1**
			11– 20	61	**16.6**
			21 – 30	37	**10.1**
			>30	63	**17.1**
Total				367	100.0

Instrument Development

The survey instrument was developed by adopting existing validated questions wherever possible. Items for relative attractiveness were adapted from Ping (1993), Sharma and Patterson (2000) and Jones et al. (2000). Some items

were self-developed to make the instrument more accurate to the context of the current study. Items for switching costs items were adapted from Ping (1993), Jones et al. (2000) and Burnham et al. (2003). Items for resistance to change were adopted from Pritchard et al. (1999) and Kyle et al. (2004). Items for willingness to pay more were adopted from Srinivasan et al. (2002) and Fullerton (2003). One item was self- developed. Finally, items for trust were adopted items from Grazioli and Jarveenpa (2000). One item was self-developed. All items used a 7-point Likert scale (1=Strongly disagree, 7=Strongly agree), except willingness to pay more which used 7-point rating scale (1=Not at all likely, 7=Very likely).

One Information Systems (IS) professor, one IS scholar, and three IS undergraduates reviewed the instruments to check for their face validity. Focus-group interviews with 16 people were conducted to discuss and obtain feedback about the questionnaire with regards to the clarity of the questions, the length of the instruments, the format of the scales, and the content. Changes were made to the questionnaire and the final list of items is presented in Table 4.

Table 4: Survey Instrument

Variable	Item	Description	Reference
Relative attractiveness (REL)	REL1	Compared to shopping at other online bookstores, Internet shopping at this store would be more advantageous to me	**Ping 1993; Sharma and Patterson 2000**
	REL2	Compared to shopping at other online bookstores, Internet shopping at this store would be more appealing to me	**Self-Developed**
	REL3	Compared to shopping at other online bookstores, Internet shopping at this store would be more satisfactory to me	**Jones et. al. 2000; Ping 1993; Sharma and Patterson 2000**
	REL4	Overall, it would be better for me to shop from this store than other online bookstores	**Ping 1993**
Switching Costs (SWC)	SWC1	It would take a lot of time and effort to switch my shopping activities here to another online bookstore.	**Jones et. al. 2000**
	SWC2	Switching my shopping activities here to another online bookstore would result in some unexpected hassle.	**Burnham et. al. 2003**
	SWC3	It would be a hassle for me to switch my shopping activities here to another online bookstore.	**Jones et. al. 2000**
	SWC4	The costs in time, money and effort to switch my shopping activities here to another online bookstore are high.	
	SWC5	All things considered, I would lose a lot if I were to switch my shopping activities here to another online bookstore.	**Ping 1993**
Resistance to Change (RTC)	RTC1	I would not willingly change my preference to buy books online at this store.	**Pritchard et. al. 1999**
	RTC2	I would not substitute this store with another online store for my book purchases.	**Kyle et. al. 2004**
	RTC3	Even if my close friends were to recommend another online store, I would not change my preference for purchasing books at this store.	**Pritchard et. al. 1999**
	RTC4	To change my preference from this store would require major rethinking.	
Willingness to pay more (WPM)	WPM1	Would you pay the current prices at this store if other online bookstores lower their prices to a level slightly below those at this store?	**Self-Developed**
	WPM2	Would you pay the prices at this store if they are increased slightly?	**Fullerton 2003; Srinivasan et. al. 2002**
	WPM3	Would you pay the price at this store if it is slightly higher than that for the same book purchase at other online bookstores?	
	WPM4	Would you pay the prices at this store if this store raises its prices slightly above those at other online bookstores?	

Trust (TRS)	TRS1	This store keeps its promises and commitment	**Grazioli and Jarveenpa 2000**
	TRS2	This store can be relied upon	
	TRS3	This store cares about its customers	
	TRS4	This store is capable of doing its job	**Newly added**
	TRS5	**This store is trustworthy**	**Grazioli and Jarveenpa 2000**

Data Analysis and Results

First we tested for common method variance using Bentler and Bonnet (1980) test. This test has been reported in various MIS researches (e.g., Straub et al. 1995, Song and Zahedi, 2005). In this test the χ^2 values of three estimations: the null Model (MM0) that has no underlying factors, a common-factor measurement Model (MM1), in which all items have one underlying factor, and the measurement Model online customers (MM2). MM0 assumes no relationships. "If, for example, the χ^2 of another competing Model, MM1 is 20% of the χ^2 of MM0, we can conclude that MM1 explains 80% of the total variation" (Straub et al. 1995). This percentage is calculated as Delta = $(\chi^2_{MM0} - \chi^2_{MMi})/ \chi^2_{MM0,}$ *Where*, MMi = one of several alternative measurement Models. Delta is an indication of the extent to which the Chi-square goodness of fit statistic of the null Model can be improved by a superior Model. The findings of the three measurement Models are summarized in Table 5.

Table 5: Survey Instrument

MODEL	ONLINE CUSTOMERS			REFERENCE FOR DELTA	
	χ^2	df	Delta	(Straub et al. (1995)	Song and Zahedi (2005)
MM0	14573.51	231	---	---	---
MM1	6671.26	209	0.542	0.484	0.488
MM2	752.07	199	0.557	0.671	0.954

Because there is no cutoff value for delta, we report the delta values reported in Straub et al. (1995) and Song and Zahedi (2005) for comparing our results. Furthermore, following Straub et al. (1995), a test of significance for the difference between the Chi-square values of MM1 and MM2 shows the fit of MM2 is statistically superior to the fit of MM1 ($p < 0.0000$). Because the above test shows that the measurement Model fits the data better than a single-factor Model, it provides support for the validity of constructs in the measurement Model.

Convergent and Discriminant Validity

The principal component analysis using VARIMAX rotation revealed five (eigenvalue > 1.0) factors which explain 79.3% of total variance. All items were loaded on each distinct factor with a factor loading greater than 0.5.

Confirmatory factor analysis was then conducted by creating a path diagram using LISREL. The measurement model was revised by dropping, one-at-a-time, items which shared a high degree of residual variance with other items, according to standard LISREL methodology (Byrne 1998, Gefen et al. 2000, Anderson and Gerbing 1988)) in order to remove items that obviously violate unidimensionality. Four items were dropped: the fourth item of resistance to change (RTC4) which shared a high degree of residual variance with RTC2, RTC3, SWC3, SWC4, and SWC5; the first item of relative attractiveness (REL1) which shared a high degree of residual variance with REL2, REL3, REL4, and SWC5; the first item of trust (TRS1) which shared a high degree of residual variance with TRS2, TRS5, and RTC3; and finally, the first item of switching costs (SWC1) which shared a high degree of residual variance with SWC2 and SWC4. After dropping these four items, the CFA showed an acceptable model fit: GFI = 0.92, NFI = 0.97, AGFI = 0.89, CFI = 0.98, and RMSEA = 0.062.

First, we assessed convergent validity of the constructs by testing model fit. As shown in Table 6, all standardized path coefficients are greater than 0.7. The individual path loadings are all greater than twice their standard error. The t-statistic is significant for all the items. The CFR for each construct is greater than 0.7, and the AVE for each construct is greater than 0.5. Thus convergent validity is adequately established.

Table 6: Results of Convergent Validity Testing						
Item	**Std. loading**	**Std. error**	**T-Value**	**AVE**	**CFR**	**Alpha**
REL2	.84	.29	19.49	.79	.92	.92
REL3	.93	.13	22.92			
REL4	.89	.21	21.34			
SWC2	.82	.33	18.55	.67	.89	.89
SWC3	.78	.39	17.27			
SWC4	.87	.24	20.39			
SWC5	.81	.34	18.32			
RTC1	.85	.28	19.20	.68	.86	.86
RTC2	.84	.30	18.94			
RTC3	.78	.39	17.08			
WPM1	.83	.31	19.24	.81	.94	.94
WPM2	.91	.18	22.38			
WPM3	.92	.16	22.79			
WPM4	.93	.13	23.43			
TRS2	.85	.28	19.77	.76	.93	.92
TRS3	.83	.31	19.25			
TRS4	.91	.17	22.24			
TRS5	.89	.21	21.47			

Discriminant validity is established if the inter-correlation (Table 7) between the latent variables is < 0.6 (Carlson et al. 2000). All inter-correlations between the latent variables were below 0.6. As a stronger test each construct's square root of AVE was also larger than its correlation with other constructs thus establishing discriminant validity. An interesting point is that the correlation between willingness to pay more with resistance to change is higher than with other factors; thus online vendors would fare better in managing customer's resistance to change since it may influence customer's willingness to pay more.

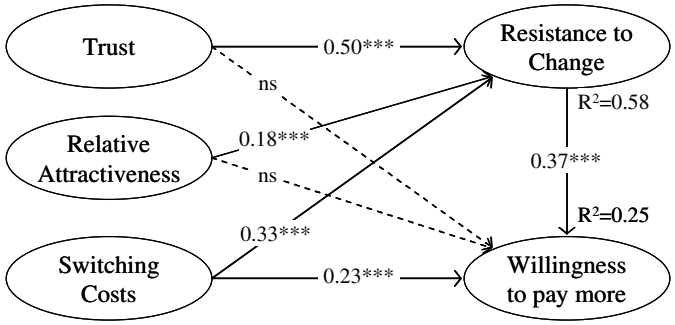
Table 7: Construct Inter-Correlations							
Variable	**Mean**	**S.D.**	**REL**	**SWC**	**RTC**	**WPM**	**TRS**
REL	5.45	1.08	.89				
SWC	4.25	1.47	.37**	.82			
RTC	5.08	1.16	.50**	.46**	.82		
WPM	3.08	1.47	.28**	.39**	.42**	.90	
TRS	5.71	.99	.46**	.18**	.56**	.18**	.87

*** p<0.01 level (2-tailed). The diagonal line (bold figure) shows the square root of AVE of each construct*

Hypothesis Testing

Next we examined the structural models. The testing results suggest that the measurement model adequately fits the data (Figure 2). The normed $\chi 2$ is 2.41, which is below the desired cut-off value of 3.0 (Gefen et al. 2000). RMSEA is 0.062, indicating a good fit since it is lower than 0.080, while Standardized Root Mean-square Residual (RMR) is 0.046, which is lower than the cut-off value of 0.05. The other statistics show that structural model adequately fits the data: GFI = 0.92, AGFI = 0.89, CFI = 0.92, and NFI = 0.97. Figure 3 shows the standardized LISREL path

coefficients and the overall fit indices. Trust, relative attractiveness, and switching costs were found to be significant to resistance to change, explaining 58% of the variance. Switching costs and resistance to change were found to be significant to willingness to pay more, explaining 25% of the variance, while trust and relative attractiveness was found to be insignificant. Hence, Hypotheses 1, 3, 5, 6 and 7 are supported.



*ns = not significant; ***: p < 0.001; **: p < 0.01; *: p < 0.05*
Normed χ^2= 2.41, RMSEA = 0.062, RMR = 0.046, GFI = 0.89, AGFI = 0.89, CFI = 0.92, NFI = 0.97

Figure 2: Standardized LISREL Solution

Meditation effects of resistance to change on trust and willingness to pay more and relative attractiveness and willingness to pay more are shown in Table 8. The table shows that RTC acts as a partial mediator between the antecedents and the willingness to pay more.

Table 8: Mediation Test

Independent Variable	Dependent Variable	Std. Beta	P-value		Independent Variable	Dependent Variable	Std. Beta	P-value
TRS	WPM	0.175	0.001		REL	WPM	0.371	0.000
TRS	RTC	0.565	0.000		REL	RTC	0.503	0.000
TRS	WPM	-0.119	0.034		REL	WPM	0.191	0.000
RTC		0.520	0.000		RTC		0.356	0.000

Discussion and Implications

Discussion of Findings

This study has identified (1) the antecedents of resistance to change (2) how they lead to resistance to change and (2) the consequence of resistance to change. We found trust, relative attractiveness, and switching costs as the antecedents and willingness to pay more as the consequence. In addition, switching cost has positive significant relationship with willingness to pay more, while resistance to change fully mediates the relationship from trust and relative attractiveness to willingness to pay more.

The results of this study support positive relationship between resistance to change and its antecedents (trust, relative attractiveness and switching costs). Previous research support a positive relationship between trust and dedication-based relationship maintenance (Morgan and Hunt 1994) as found in this study. Regarding positive relationship between relative attractiveness and resistance to change, Interdependence Theory (Kelley and Thibaut 1978) suggest that customers may be dependent on the vendor and stay at the vendor because the relational outcomes, though not necessarily satisfying, are still better than alternatives (Anderson and Narus 1990). Thus, relative attractiveness could hinder customer to switch vendor. Regarding positive relationship between switching costs and resistance to change, a number of studies find switching costs preventing customers from switching vendors, even if behavioral motivation to switch exists (e.g. Sirdeshmukh et. al. 2002).

Regarding the ends of customer retention, willingness to pay more was influenced only by resistance to change and switching costs. Regarding the relationship between resistance to change and willingness to pay, customers who are resistant to change vendor are reluctant to lose the benefits they have gained from the exchange relationship with the current vendor (i.e., loss averse). Therefore they are willing to pay more in order to keep what they have gained at the current vendor. Regarding the relationship between switching costs and willingness to pay more, Burnham et al. (2003) proposed that switching costs may involve search cost and disappointment costs that increases the "full price" of the product. In order to lower the "full price", customers compare prices at the current vendor with that at new vendor. If the price premium is less than switching costs, customers will pay price premium. If the premium is higher than switching costs, they will switch. The former is more likely to happen than the latter, due to inherent risks and uncertainty in Internet environment that can increase both the search cost and disappointment costs. Previous studies (e.g., Lieberman and Montgomery 1988) have also found that vendors are able to charge price premium, if the switching cost is high.

However, the relationship between trust and willingness to pay more was not supported. The effect of trust on willingness to pay more is fully mediated by resistance to change. This finding is similar to that of Rao and Bergen (1992) that reputation does not lead to higher price premium. Reputation is an important aspect of a vendor's trustworthiness (Jarvenpaa et. al. 2000). Rao and Bergen (1992) argue that there are some components of a seller's reputation that may be at risk if the seller charges price premium, e.g. future sales, sales of allied products, and sales to customers who may be influenced by the current customers. This means that customers use their trust to the vendor as a "hostage", through implicit threat of jeopardizing related sales if the vendor charges price premium (Williamson 1981). Since trustworthy vendors have more at risk than un-trusted vendors in terms of their reputation and sales, they are less likely to cheat and would require a lower price premium. On the other hand, higher price premium might be needed for an un-trusted seller to ensure that the vendor provides a safe transaction and does not cheat.

The relationship between relative attractiveness and willingness to pay more was also not supported but was fully mediated by resistance to change. Relative attractiveness does not guarantee willingness to pay more without resistance to change. Although customers might perceive that Internet shopping at the current vendor is better than other vendors, if they do not have resistance to change or inclination to stay at current vendor, they can still switch to another vendor which offers lower price. Likewise, if customers trust the vendor but are not resistant to change, they can switch to other vendors in case prices are increased by the current vendor. Ba and Pavlou (2002) also mention that although trust induces price premiums, price premiums may also be affected by other factor such as buyer's personal preference. Therefore, trust and relative attractiveness are necessary conditions, but not sufficient to create customer willingness to pay more if they are not coupled with resistance to change. This finding again highlights the importance of resistance to change.

Theoretical and Practical Implications

From theoretical perspectives, this study has developed a conceptual framework of online customer retention by identifying the means and ends of developing customer retention. Dedication-based relationship development and constraint-based relationship development are the means of customer retention, while resistance to change and willingness to pay more are the ends. Although previous research has studied the means and ends of customer retention (e.g. Gefen 2002), it focuses primarily on loyalty as the ends of customer retention. Yet loyalty programs have seen limited success (Dowling and Uncles 1997). Introducing resistance to change provides a new perspective to online customer retention.

This study has particularly highlighted the importance of resistance to change in Internet shopping context. Customers would transact again with the same Internet vendor if they are resistant to changing their transaction relationships with the vendor, despite not having loyalty to the vendor. Although resistance to change has been studied in many other fields, such as marketing (Pritchard et. al. 1999), we cannot directly adopt the construct for Internet shopping context. This is due to the nature of Internet shopping which is characterized by low search cost, easy comparison between different vendors and low switching costs, as compared to high search cost and high switching costs in offline shopping – the context of resistance to change in marketing. This is thus one of the first known studies of resistance to change in e-commerce.

Based on a sound theoretical foundation of status quo bias (Samuelson and Zeckhauser 1988), we have identified three antecedents of resistance in change in Internet shopping, i.e. trust, relative attractiveness, and switching costs.

Specifically, an online vendor could use trust and relative attractiveness to develop dedication-based relationship, and use switching costs and relative attractiveness to develop constraint-based relationship. Most of previous research on loyalty identifies antecedents mainly from dedication-based relationship development, such as satisfaction (Oliver 1999), value (Sirdeshmukh et. al. 2002), and trust (Gefen 2002). They have thus neglected constraint-based relationship development and its effect on customer retention. Our findings and conceptual framework bridge the gap by explaining how constraint-related causes and dedication-related causes work together to form customer retention.

This study also identified two antecedents of willingness to pay more, i.e. resistance to change and switching costs. This is a new contribution to the price premium literature as the current literature has only associated price premium with loyalty (Srinivasan et. al. 2002), reputation (Landon and Smith 1998), trust (Ba and Pavlou 2002), delivery speed (Li and Lee 1994), and convenience (Nault and Dexter 1995). Based on the loss aversion perspective (Kahneman and Tversky 1991), we tested and found the effect of resistance to change to willingness to pay more. We can see that by developing resistance to change, an Internet vendor is able to reap the benefits of customer retention (e.g. willingness to pay more) regardless of customer loyalty. Thus, potential future research about customer retention may focus on resistance to change instead of loyalty. The mediation effect of resistance to change for trust and relative attractiveness to willingness to pay more also emphasizes the importance of resistance to change. Hence future studies may also investigate the effect of resistance to change on willingness to pay more in greater detail. Finally, based on pricing formulation perspective (Ehrlich and Fisher 1982), we also found the positive effect of switching cost to willingness to pay more. This finding confirmed the past studies which suggested the relationship of both constructs (e.g. Lieberman and Montgomery 1988).

From practical perspective, this study has important implications for online vendors. Online vendors can retain customers by developing both dedication-based relationship and constraint-based relationship. Previous research focused on dedication-based relationship development (e.g. Luarn and Lin 2003), but we have shown that the combination of both dedication-based relationship and constraint-based relationship development will increase the customer retention. Specifically, from the perspective of resistance to change, an online vendor can develop customer retention by increasing trust, relative attractiveness, and switching costs. First, to increase trust, an online vendor can incorporate the latest security mechanism to ensure a safe and reliable transaction for customers. The vendor could also enroll in business verification programs and earn trust marks that is visible in the website. Besides, the vendor could provide an offline means to contact the company if any problems happen during online shopping and provide quick recovery to the problem. Second, to increase relative attractiveness, the vendor should always deliver high quality products and services and provide fast and easy way for customers to return any defective products. Finally, to increase switching costs, the vendor could create an online community on the website, create a loyalty program for repeat customers (e.g. rewarding loyalty points, sending calendar, merchandise, or personalized greeting cards on customer's special occasions), and provide customized services based on the analysis of individual requirements.

By increasing customer resistance to change, we have shown that the vendor will be able to increase customer willingness to pay more, hence boosting its profit. This is because one-percent increase in prices produces an average increase of 7.4% in profitability, as reported by McKinsey. Indeed, 5% increase in customer retention could result in 25% to 95% increase in profit (Reichheld and Schefter 2000). Therefore, the identification of factors that can enhance customer resistance to change would allow online vendors to ensure retention of these customers as well as generate higher profit from them.

Conclusion

This study has provided a conceptual framework of online customer retention with an understanding of various means and ends of customer retention. Particularly, this study has identified resistance to change as a key to retain online customers. Past research has focused on developing loyalty in order to retain customers, but creating loyal customers has become more difficult nowadays. Despite the difficulties in creating loyalty, this study has shown that vendors are still able to retain their customers by developing resistance to change and reap the benefit of customer retention regardless of customer loyalty. This study has identified various antecedents and consequence of resistance to change and offered a new insight of the antecedents of customer willingness to pay more. Finally, this study offers important practical contribution by providing guidelines on how Internet vendors can create customer resistance to change, hence improving their bottom line.

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